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Q2 2022 Matterport Inc Earnings Call

EVENT DATE/TIME: AUGUST 10, 2022 / 8:30PM GMT

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PRESENTATION

Operator

Good afternoon, everyone, and welcome to the Matterport Incorporated Fiscal 2022 Second Quarter Results Conference Call. (Operator Instructions) Please also note, today's event is being recorded.

At this time, I'd like to turn the floor over to Soohwan Kim. Sir, please go ahead.

Soohwan Kim *Matterport, Inc. - VP of IR*

Thank you. Before we begin, I'd like to remind you that today's call contains forward-looking statements within the meaning of the federal securities laws including, but not limited to statements regarding Matterport's future financial results and management's expectations and plans for the business.

These forward-looking statements are subject to numerous risks and uncertainties that may cause actual results to differ materially from those discussed on today's call.

Additional information regarding the risks and uncertainties that could cause actual results to differ from forward-looking statements can be found in our filings with the SEC. Any forward-looking statements made on this call speak only as of today and Matterport assumes no obligation to update or revise them whether as a result of new developments or otherwise except as required by law.

In addition, today's call may include discussion of non-GAAP financial measures. These measures should be considered as a supplementary and not a substitute for GAAP financial measures. Reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in today's earnings deck, which is available on the company's website.

Hosting today's call are RJ Pittman, Chairman and Chief Executive Officer of Matterport and JD Fay, Chief Financial Officer.

Now I would like to turn it over to RJ to begin.

Raymond J. Pittman *Matterport, Inc. - Chairman & CEO*

Thanks, Soohwan. Good afternoon, everyone, and thank you for joining us today. I am pleased to share our second quarter financial results with you. We had another strong quarter delivering on our product strategy, market expansion and key results.

Total revenue for the quarter was \$28.5 million. And we delivered \$18 million in subscription revenue, up 7% sequentially from Q1, above our guidance. We reported strong operating metrics with our subscriber base growing 10% sequentially to over 616,000 subscribers, and spaces under management also increasing sequentially 10% to over 8 million spaces.

These results reflect the strong underlying demand from our enterprise customers and the tireless efforts of our employees; we have delivered on big commitments to our customers. While the global economic outlook remains uncertain for everyone, we have been effectively managing and leading through it, as reflected in our progress and in our results and guidance.

We continue to optimize for growth with as much efficiency as possible. Our core SaaS business continues to grow. And our strong financial position enables us to fully execute our business plan and adapt to the challenging macro environment. Continuing supply constraints has been the primary factor limiting our full revenue potential in the near-term and our ability to meet demand for our Pro2 camera. We have a record order backlog. And we expect to fulfill the backlog during Q3.

Innovation remains key to our success in both the near-term and the long-term. Our investment in the capabilities of digital twins has never been more important to our customers and to driving global adoption. And it remains one of our most distinguished competitive advantages.

Digital twins are incredibly valuable to professionals, small businesses and large enterprises alike. They create value and breakthrough operating efficiencies for any type of building or space, delivering immediate ROI for our customers in any macro environment. In fact they are deflationary because of the relatively low cost to create them and the yield and benefits that reduce operating costs.

For large enterprises, the Matterport Digital twin becomes a collaborative work-through platform, with the ability to bring there here, enabling widely distributed teams to work virtually in a dimensionally accurate photorealistic space together from any time zone.

In 2022 there is no better platform for marketing property than the one that starts with the Matterport Digital Twin. And with our recent acquisition of VHT Studios, we are dramatically enhancing the Matterport value proposition with new capabilities that help our customers book, lease and sell properties faster and for the best possible price.

I'd like to discuss our advancements in more detail to highlight our forward progress and unique ability to drive pertinent technology changes across this \$327 trillion asset class that we call the built world. Then I'll hand it over to JD Fay to discuss our financial results for the quarter in more detail.

We believe our digital twins can drive higher revenue and lower cost for every business. Once a digital twin is created, our platform delivers many value-added services and property insights that provide immediate cost savings and operating efficiencies for the space.

Data-driven decisions, remote facilities management, virtual inspections and collaboration in a virtual property save customers significant time and money. And this reduces the strain on the labor force and reduces the overhead associated with routine onsite property visits.

As the power of digital twins starts to be recognized, third-party consultants like Capgemini are publishing their findings that digital twins can indeed reduce time to market and improve operational efficiency and sustainability efforts.

While we are in the peak of the summer travel season, I'd like to share 2 customer examples in the travel and hospitality space with Vacasa and Air France KLM. This category continues to develop as a strong market for growth as the world recovers from the pandemic and people return to travel. Starting with Vacasa, North America's leading vacation rental management platform has increased its booking conversion rate on vacasa.com by nearly 12% with Matterport's immersive digital twins, an extraordinary lift metric by hospitality industry standards.

As such it comes as no surprise that nearly 90% of Vacasa's more than 30,000 property listings today include Matterport's immersive digital twins. Visitors to Vacasa's website can virtually walk an entire property with stunning realism and dimensional accuracy.

According to Vacasa, property listings that feature Matterport Digital Twin, keep guests engaged 3x longer, giving them the added confidence to book a new destination sight unseen. Vacasa has digitized over 64 million square feet of real estate with Matterport since 2015. They can share and explore Matterport spaces with friends and family with the confidence they're booking the right vacation home for their needs.

For less than the cost of a professional photo shoot, Matterport delivers a 3D digital twin, still photography, floor plans and teaser videos

to better merchandise rentals across social media and online channels. And the first digital twin of any property captured with our software and your smartphone is completely free.

Next, KLM Royal Dutch Airlines, part of the Air France-KLM Group, has created Matterport digital twins for each type of aircraft in the fleet. KLM is using Matterport to remotely train the ground and flight crew and to provide an immersive virtual experience for customers. KLM began using Matterport in 2017, capturing the first digital twin of a Boeing 787 Dreamliner to train ground crews on cleaning the aircraft. When crews reduced cleaning time by 30%, KLM recognized the potential of Matterport digital twins to streamline training for other departments and utilized Matterport to further capture digital twins in its entire fleet.

Today KLM manages a library of 104 digital twins that have been viewed nearly 1 million times, including multiple versions for each of the 14 types of Boeing, Airbus and Embraer aircrafts that make up its fleet. Flight attendants utilized Matterport's digital twins to learn where important safety and hospitality items are located while an annotated digital twin for ground crews illustrates where service trolleys are stowed.

Meanwhile pilots can easily refer to an aircraft's digital twin during a preflight safety check if an issue is detected. Equipped with Matterport Digital Twins, KLM employees do not need to travel to Amsterdam Airport Schiphol for training and instead use immersive digital twins.

Since virtual trainees no longer interrupt the maintenance work of an aircraft with in-person visits, it helps to get the aircraft to return to service faster and with less downtime. In addition, KLM's digital twins have helped streamline its fleet management.

For example, when upgrading the WiFi router used on a specific aircraft, KLM used the highly accurate data within the digital twin to confirm measurements and optimized the placement of new routers. Beyond training its internal teams, KLM uses digital twins to showcase its aircraft cabins to travelers. Passengers can virtually experience a cabin, compare sections and view their ideal seat before purchasing.

Moving on to the Enterprise business. We are delivering powerful new enterprise features as we continue to invest R&D resources to become a mission-critical software partner for the largest companies around the world. Our cloud software platform offers a combination of security, compliance and access control features that Fortune 500 customers require.

Additionally we are launching more scalable services to complement the platform advancements this quarter, including longer service and support hours, expanded language support, professional services and the ability to offer robust SLAs to enterprises that require.

Collecting, securing and properly managing customer data is core to Matterport's business. Our platform is built on a robust and secure infrastructure that includes end-to-end encryption of data, advanced administrative controls and network security.

SOC 2 Type II compliance is just one example of the enterprise features large customers are looking for. We undergo independent third-party annual audits against SOC 2 type compliance, allowing customers to work in a highly secure and compliant environment.

Beyond enterprise security, customers are looking for features and functionality that help to integrate Matterport into the way they work, including their day-to-day operations and their management of employees. With enterprise user management and permissions, customers can readily deploy scalable secure access control down to the individual employee or work group for each digital twin or a large group of them.

In June of 2022, we released a new feature we call private model embed. This is a great new way for enterprises to privately share digital twins with a large group of employees on the corporate network without requiring additional user licenses to access the space.

Private model embeds enables seamless read-only access to digital twins with no log-in required. This helps companies reduce friction and speed adoption of their Matterport digital twins across the organization while extending Matterport into their existing corporate workflows.

Our enterprise customers are becoming more confident in the power of our digital twins and are scaling with Matterport and bringing new spaces online every day. We saw rapid revenue growth from our largest customers and a strong net dollar expansion rate.

We currently have the largest pipeline of enterprise opportunities we have seen since launching the Enterprise platform in 2021. The enterprise go-to-market organization we have been building over the last year is starting to yield tangible results. We've increased our penetration to 23% of the Fortune 1000, now deploying Matterport as the customer value proposition becomes clear and demand continues to build.

I am encouraged by the results of our team's hard work and commitment to scaling our digital twin platform for our customers and look forward to helping them accomplish their own digital transformations with tangible results.

Finally, I would like to discuss the strategic acquisition of VHT Studios closed in early July. VHT extends our industry leadership with a more comprehensive approach to marketing properties online. Together with VHT, we will move our offering closer to the customer to service more property listings with a more robust digital marketing solution than we've ever offered before.

VHT's market leadership in digital property marketing spans more than 20 years and represents tremendous strategic value for Matterport's digital twin platform for the real estate market and offers great potential to impact our commercial real estate and travel and hospitality markets as well, where digital marketing is vital to growth.

Together, VHT and Matterport are creating the most comprehensive digital marketing technology platform targeted at large-scale residential real estate brokerages and enterprises with our digital twin at the center. Starting in the U.S. this quarter, we intend to expand the offering internationally in the future with a fully integrated real estate media marketing solution, including photos, videos, floor plans, drone imagery, Matterport digital twins and more.

VHT has established and maintained dozens of longstanding enterprise customers, including 7 of the top 10 brokers in the United States, like [At Properties], Baird & Warner, Coldwell Banker, Compass, Parker & Group and Douglas Elliman. We look forward to working with all of them and growing our business together. VHT's world-class customer service has cultivated lasting relationships with their clients, with the majority of the largest customers on board for nearly 2 decades each.

We're excited to expand our reach with these leading real estate brands to deliver the power of the digital twin and our unique property data insights to every listing online. Consistent with our business model, 80% of VHT's revenue at the enterprise level is recurring. This substantially reduces churn more commonly found at the agent and listing level and streamlines the integration of our respective offerings.

Residential real estate will continue to be a substantial part of our business. It represents \$170 trillion in asset value, more than half of the total real estate value globally. We believe we can continue to grow in real estate no matter what happens with the economy.

While we've seen rapid adoption of digital twins over the last few years, adoption still remains massive. We are closely attuned to the quickly changing real estate landscape. And Matterport has proven to be an indispensable tool in competitive markets and in constrained markets. When demand softens, inventory rises and properties stay on the market longer.

In both cases, property agents and brokers need a catalyst to maximize their transactions and keep the market moving forward. We will continue to create opportunities like these to compound our growth and achieve our mission. These examples highlight the company's hard work and focused execution over the past quarter. We are driving operational excellence and our strategic growth investments are paying off.

I am excited for what's coming next for Matterport. We have a lot in store for our customers.

I will now turn it over to JD Fay to discuss our financial performance for the second quarter of 2022.

James Daniel Fay Matterport, Inc. - CFO

Thank you, RJ. I'm delighted to report that Q2 was another solid quarter for Matterport, delivering record subscription revenue of \$18.4 million, up 20% from the year-ago quarter.

In addition, our annual recurring revenue grew to a record \$73.6 million. We had another outstanding quarter of customer acquisition with total subscribers increasing 52% year-over-year to a record 616,000. At the end of the second quarter, we had 554,000 free subscribers and 62,000 paid subscribers. Subscription revenue grew to 65% of total revenue in the second quarter compared to 52% in the year-ago period.

Subscriptions are core to our growth strategy. And we leveraged the other revenue lines, product, services and license to continue to build subscribers and subscription revenue over time. Our subscribers continue to increase their spend with us as well.

Our net dollar expansion rate was 107% in Q2, which was steady with the prior quarter. We continued to see strong expansion with our enterprise customers in the second quarter. On a combined basis, this strength was offset by lower expansion in our small and medium business customers, who appeared to be growing more slowly in response to the volatility in the macro environment.

License revenue was \$26,000 in the quarter, up slightly from Q1. In last quarter's conference call, I described that we had won another 7-figure contract and noted that we expected to recognize \$400,000 of that contract for each of the second through fourth quarters of this year. In fact our professional services organization exceeded our expectations. And we recognized nearly 2 quarters of revenue relating to that contract in the second quarter.

Further given the ultimate nature of the deliverables provided to the customer, this contract is and will be recognized in the services revenue line rather than in license revenue. Services revenue for the second quarter was a record \$5 million, a 74% increase year-over-year.

While services benefited from the contract I just discussed, we also had strong growth in our other services offerings, including Scan to BIM, schematic floor plans and capture services. Enterprise customers are increasingly turning to capture services to get onto our platform quickly and at scale, leveraging the existing installed base of service providers who already own Matterport Pro2 and other compatible cameras.

Our product revenue was \$5 million in the quarter compared to \$9.2 million in the year ago period. In the second quarter, the business was constrained by the supply chain challenges that we have discussed in previous quarters. The impact in the supply chain was greater than we had anticipated when we provided our second quarter guidance in May.

We ended the second quarter with a record backlog of open camera orders, demonstrating continued strong demand for our high-definition commercial-grade Pro2 cameras. But for supply constraints on components, we believe we would have handily exceeded our second quarter total revenue guidance.

For example, had we shipped through the product order backlog in the second quarter, product revenue would have been close to \$8 million. For the go-forward periods, we are working to mitigate the impact of supply constraints for the Pro2 camera with not only our procurement efforts, but also our new Matterport Axis product, which enables anyone to use the phone in their pocket with its affordable motor mount to create accurate digital twins.

And finally, we are working with more and more customers as they utilize our capture services offerings as another ready option for creating Matterport Digital Twins.

Total revenue was \$28.5 million for the quarter. While this was sequentially flat with the first quarter, following through on the example I just mentioned, if we had been able to ship Pro2 cameras to satisfy the backlog in our order book, total revenue could have exceeded \$31 million and which would have been above our guidance range for the period.

Moving on to gross margin. Our total non-GAAP gross margin for the second quarter was 48%. Our subscription gross margin was 72% as compared to 75% in the first quarter. The sequential decrease was due to several vendor changes in the quarter as there were redundant costs while we are transitioning vendors.

We believe that our new vendor relationships will strengthen our platform, making it easier to buy Matterport offerings in more languages and in more currencies. We are also expanding our professional services by offering more hours of availability in more languages.

Product gross margin was negative 37% as compared to 2% in Q1. Product gross margin continues to be impacted by the higher costs to secure the supply of components as well as added freight costs to expedite materials to production locations. Additionally, in the second quarter, our unusually low production levels meant that a portion of overhead costs remained unabsorbed, increasing product costs on goods sold.

Nearly the entire change in total gross margin sequentially was due to this impact from product gross margin. We do expect that product gross margin will improve in the third quarter, which I'll discuss more shortly.

Reviewing non-GAAP operating expenses in Q2. Research and development expenses were \$13.2 million, up \$1 million sequentially from Q1. The spending level was as planned and is primarily attributable to technology development investments to continue to enhance our product platform and feature set, in particular, for our growing enterprise customer base.

SG&A expenses for Q2 were \$35.6 million, up \$6.1 million sequentially from Q1. The increase was primarily due to investments in sales and marketing, which were also part of our growth plan.

As discussed last quarter, we have slowed the growth of operating expenses as we believe we are appropriately staffed at this time and are focusing on driving returns on our investments and increasing efficiency throughout the organization.

Non-GAAP net loss was \$35.3 million and diluted non-GAAP loss per share was \$0.12 for the quarter, better than our guidance range of a \$0.13 to \$0.15 loss, reflecting operating efficiencies achieved in the organization. Weighted average share count was roughly 283 million shares.

Moving on to our balance sheet, which remains strong, we ended the quarter with \$562 million in cash and investments. And we do not have any debt. We believe that we are more than fully funded to achieve the business plan we have in place. And we remain committed to conscientiously managing our financial resources.

Today we are introducing financial guidance for the third quarter and updating full year 2022 financial guidance. These expectations include the anticipated contribution from our acquisition of VHT Studios, which closed on July 7.

We expect full year 2022 total revenue to be in the range of \$132 million to \$138 million. We expect full year 2022 subscription revenue to be in the range of \$73 million to \$74 million. For the third quarter, we expect total revenue to be in the range of \$35 million to \$37 million. We expect subscription revenue to be in the range of \$18.5 million to \$18.8 million.

While we are increasing total revenue guidance for the full year, we are adjusting our subscription revenue guidance therein for the second half of 2022 for 2 reasons. First, the cumulative impact of lower Pro2 camera shipments due to the supply limitations we have described over the last several quarters comes with an associated lower total number of paid subscribers and spaces under management than expected.

Typically each Pro2 shipped generates a new higher usage and thus higher recurring revenue subscriber as these customers tend to use their capture devices in higher volume compared to other subscribers.

Without having received their Pro2 cameras, we are not yet realizing the corresponding subscription revenue arising from those customers, though we do expect to shift through the backlog in the third quarter to begin to turn this factor around.

Second, we are beginning to experience a trend of larger enterprise contracts that have multiple year terms. While we are pleased to see the contract size increasing, they often include a rollout period of capturing their properties, along with a scale-up period in the subscription revenue. This means that compared to our original expectations entering the year, the subscription revenue associated with these contracts begins at a level that is a bit lower than we originally expected, but also that the total contract value and ultimately monthly recurring revenue from these subscribers is expected to be higher and extend for a longer period of time than we had originally expected.

Sales cycles are holding steady. And ultimately we are pleased with this traction and the multiyear commitments that enterprise customers are starting to make with Matterport. Also we believe there are signs that we are starting to see relief in the supply chain. We have made progress in our supply chain already this quarter, which includes having secured components for a significant increase in Pro2 camera production.

With these higher volumes, we also expect that product gross margin will begin to recover. While there are signs of improvement in material supply, this does not yet mean that the supply chain is fully recovered to normal operations or costs, and the supply chain's impact remains a fluid situation quarter-by-quarter. I plan to provide an update on this topic during our next quarterly conference call as well.

Reflecting the expected improvement in Pro2 shipments, we expect that Q3 product revenue on the one hand and Q3 services revenue on the other to be roughly similar in amount. We expect that license revenue will be immaterial in the third quarter as the large contract I described earlier is now recognized in the services revenue line on the income statement. In addition, we expect the next contribution to revenue from that contract to be in the fourth quarter.

We expect third quarter non-GAAP loss per share to be in the range of \$0.13 to \$0.15. For the full year of 2022, we expect a \$0.46 to \$0.50 non-GAAP loss per share, which represents an improvement from our previous guidance of a \$0.47 to \$0.52 loss. Combined with the expected growth in revenue, we are undertaking initiatives to contain costs and have started programs that we believe will result in \$20 million to \$25 million in annualized savings.

We expect to begin to see these cost savings flowing through our income statement in the fourth quarter. This means that operating expenses are expected to sequentially decline from the third to the fourth quarter of this year.

Further, we will continue to monitor the productivity of all of our investments to allocate our capital prudently. While we continue to focus on top line growth, we have a robust high-margin subscription business that has allowed us to operate profitably in the past. And this gives us confidence in the long-term strength of this business today.

Now, I would like to turn the call back over to RJ.

Raymond J. Pittman *Matterport, Inc. - Chairman & CEO*

Thank you, JD. Our strong Q2 results demonstrate that our strategy is working. We are navigating the dynamics of the global market with agility and continue to deliver for our customers. There has never been a more important time for businesses to invest in technology first solutions to create growth, profitability and competitive advantages in the market.

Matterport is at the forefront of one of the most important transitions to technology and real estate. And our platform is digitizing buildings in almost every country in the world. With more than 23% of the Fortune 1000 using Matterport to manage their enterprise facilities, real estate portfolios, factories, offices and retail locations, we have great confidence in the long-term plan.

Our enterprise business is in focus. And our platform is advancing rapidly to meet the needs of our growing corporate customer base and real estate owners around the world. We believe the global economy will face continued headwinds for the foreseeable future. And we

remain focused on navigating the near-term challenges to meet customer demand and drive global adoption in pursuit of our mission to make every building and every space more valuable and accessible.

Increasingly today, companies are looking for new ways to drive more efficient growth and get more from their operations and infrastructure investments. The Matterport value proposition offers a unique opportunity for companies to transform their business operations with a low-cost digital subscription plan that is unmatched and fueled by 11 years of R&D focused on providing the best tools for marketing and managing properties of any cost.

We believe that the more our customers invest in the Matterport Digital Twin platform, the more value, productivity and return on investment we can deliver for them. We have the world's largest subscriber base for digital twins. And we have created more digital twins than any other company to date and counting.

Still the market opportunity ahead is immense. Our solution is universal by design and the fidelity, extensibility and ease of use give us a tremendous competitive advantage. We are delivering digital transformation to the largest asset class on the planet, real estate in an environment where everyone is striving to create efficiency.

We remain focused on delivering for our customers with industry-leading innovation, customer experiences and service. With more than 4 billion buildings in the world, we are still in the early stages of this industry revolution. And we couldn't be more confident and energized for the opportunity that lies ahead.

Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Brent Bracelin from Piper Sandler.

Brent Alan Bracelin Piper Sandler & Co., Research Division - MD & Senior Research Analyst

RJ, maybe I'll start with you. The real estate market is obviously the largest vertical for your business, so a little surprised to see the subscription growth reaccelerate. I think on a sequential basis, it was the highest sequential growth in a year. So perhaps if you could just maybe explain why this quarter, some of the subscription growth trends decoupled from arguably real estate fundamentals that still remain challenged? Was it other verticals? Or are you driving higher penetration in the real estate vertical? Any color there would be helpful.

Raymond J. Pittman Matterport, Inc. - Chairman & CEO

Sure. Thanks for the question. And yes, it is kind of a few parts to the answer. The first is, indeed, our multi-vertical strategy has worked very well for us to balance out any kind of dynamics, headwinds that could face a specific vertical like RRE. So that's number one. We're seeing great strength in our enterprise business. And in particular, growth within existing accounts, they're continuing to expand at an even faster rate than expected, which is great to see.

The second part of it is, we started this discussion back in Q1 about reenergizing and invigorating our go-to-market playbook for RRE and frankly, for CRE as well for commercial real estate, recognizing that RRE is the biggest cohort of properties on the planet and still remains hugely untapped from our perspective.

And so we've been investing very pointedly in the go-to-market to drive awareness, understanding and demand. And one other thing I'll add that fortify the go-to-market is creating an easy entry point to create your first digital twin.

We launched Matterport Axis, as JD talked about, the motorized amount to complement the smartphone in your pockets, enabling anybody to just drop your phone in the dock and get a professional result yourself. That has really broken down the barriers to adoption in RRE, which was one market we knew would continue to embrace technologies like this down at the individual level.

In addition, we're seeing continued adoption of this technology in the enterprise and in particular, in largely distributed applications like large retailers that have hundreds or thousands of locations looking for a low-cost way to capture many, many spaces at a time.

And so the strategy is working. And these investments that we laid down late last year and the beginning of this year are really contributing to that breakout and growth that you're seeing in subscription.

Brent Alan Bracelin Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Well, certainly encouraging to see those investments starting to bear some fruit here. I guess last question for you, JD here. As we just think about the midpoint of the second half growth outlook, that's forecasted to accelerate sharply over 40% year-over-year growth.

How much of that is attributed to just this working off the backlog, record backlog on the camera side, Pro2 cameras versus the acquisition? And any details on what the acquisition contributes to the second half would be helpful.

James Daniel Fay Matterport, Inc. - CFO

Yes, sure. So the VST acquisition should contribute about \$4 million in the third quarter. And it's a seasonal business because it's a U.S. residential real estate base. So it will be a bit less in the fourth quarter.

And then, the balance then, of course, would be that recovery in the product revenue line item that we talked about.

The backlog itself, we expect to ship through all of the backlog in Q3 and then Q4 would be organic or turns-based business with respect to product revenue then.

Brent Alan Bracelin Piper Sandler & Co., Research Division - MD & Senior Research Analyst

And good to hear you guys are also willing to optimize the cost structure.

Operator

And our next question comes from Bhavin Shah from Deutsche Bank.

Bhavin S. Shah Deutsche Bank AG, Research Division - Research Analyst

Just, I guess, on the macro first. I mean, outside maybe the impact on the supply chain, which you kind of talked about. Can you maybe talk about what you're seeing today in the macro environment and where that might be, if at all, impacting your business?

And maybe talk about kind of what's embedded in your guidance in terms of macro assumptions.

Raymond J. Pittman Matterport, Inc. - Chairman & CEO

Sure. I can start with that. Thanks, Bhavin. I'd say one of the things very related to our business that I'm seeing in as a result of macroeconomic pressure in corporate America is companies and executives and decision makers weighing technology investments to drive operating efficiencies.

Where can technology, be deployed with the biggest bang for the buck, the strongest ROI to help set these companies up for the long term. And of course, synonymous with any large global multinational enterprise is a fair bit of physical infrastructure, right?

And physical infrastructure has huge overhead and costs associated with it. And Matterport is uniquely designed to reduce the operating costs and overhead. The more facilities and square footage that you manage, the more opportunity there is to take cost savings out with our digital twins.

But we're just one element, one potential solution for companies across an array of different ways to create operating efficiencies and businesses, as you know. And so what I'm seeing is companies are evaluating and maybe taking more time to decide what of those investments they're going to prioritize and win, right?

And so that means that is especially important for Matterport, our sales and marketing teams to be absolutely on our front lines with those prospective customers through those decision-making processes. And many of these companies are pretty heavy in evaluations and making investments in technologies, digital transformations of many different kinds.

And again, one of them -- that's perhaps easy low-hanging fruit is Matterport, because the low-cost subscription proposition against the magnitude of the savings that we deliver is really down to us making sure that the markets are aware and they fully understand our value proposition.

And so I think as we roll through this and we see more stabilization in the macro environment, we're going to see an acceleration in decision-making that as far as Matterport goes, should positively impact and start to shorten our sales cycles for some of these larger enterprise deals that we're chasing.

James Daniel Fay Matterport, Inc. - CFO

Yes. I'm building the second part of that question, if you'd like, Bhavin, in terms of how that flows through the forecast or the guidance that we're providing. The strength in the enterprise, we believe that that's going to continue, obviously, in the second half.

And we believe that because we're looking at the enterprise pipeline and opportunities. It's quite strong and growing. And we're responding with new service offerings, some of which we talked about already in the script today targeted at the enterprise.

And that's all designed to capture more of that enterprise level momentum in these larger deals that are multi-years I talked about. And so that's one of the primary drivers as well of the expansion and growth that we expect to see in the second half.

Bhavin S. Shah Deutsche Bank AG, Research Division - Research Analyst

And then just and a follow-up on VHT. I appreciate the color on the revenue contribution. But maybe can you just talk about the business model and how revenue will be recognized. I assume it's within services, but any further insight would be appreciated that is going to be elsewhere?

And then, I guess along those lines, can you maybe just talk about the revenue synergies and if there's any meaningful dilution on the op income or EPS?

James Daniel Fay Matterport, Inc. - CFO

Yes. Yes, good questions. In terms of the revenue model and how it's going to get reflected, how it will be reflected in our income statement, VHT will be, as you suggested, largely recognized in the services line.

So that's where we're holding it. Obviously, there's a bit of work for us to do on the accounting technically to confirm all of that. But largely, it will be in the services line, as you suggested.

In terms of operating expenses, that is adding a bit more to our OpEx. So overall, OpEx for Q3 should grow by about the same amount that it grew sequentially Q1 to Q2. And embedded within that is a fraction of that growth; about half of it would be VHT OpEx adding in.

And then, in terms of synergies, we are, as you noted, working or planning a number of revenue synergies. And in particular, if there are opportunities to cross-sell both company's products. In fact, VHT already had launched with us a promotion to drive Matterport digital twins through their service offerings.

And that's actually going quite well already, 3 weeks in. And we've seen a nice uptick in order volume under that promotion. And then we're working as well to offer VHT services through our existing customer base, not only in residential real estate, but soon in commercial real estate and travel and hospitality.

And then finally, we intend to extend this globally, because we already have customers in nearly 180 countries and can see their activity

and the used cases are the same in countries around the world as they are in the United States.

So we'll eventually extend internationally and that will help drive further revenue synergies under that acquisition.

Operator

Our next question comes from John Walsh from Credit Suisse.

John Fred Walsh *Crédit Suisse AG, Research Division - Director*

I wanted to ask the first question around supply chain. Obviously, a lot of confidence, you worked through that or at least the backlog next quarter. But when you talk to your manufacturer, is it that they still need components? Is it that some of these cameras are bogged down in logistics, so they might have already shipped, but you just might not have gotten them yet? Just any more color around that that you can provide?

Raymond J. Pittman *Matterport, Inc. - Chairman & CEO*

Sure, chip among them is component shortage. And we assemble our cameras here in Sunnyvale, California. We're getting our parts from Asia on a fairly continual basis. And there is a lot of competition for those components, particularly the microprocessors and from companies going for even bigger supplies than Matterport for all sorts of different devices.

And so that's put both availability, pressure on us, but also when we do get availability, the prices are astronomical, right? It's a big supply-demand phenomenon. We have been spot buying and purchasing ahead, which has impacted margins as you've seen. But again, that's, we believe, very confidently it's short-lived because there is a growing and has been a very steadily strong growing backlog of orders. That, as JD mentioned, we're now going to be able to start burning down pretty systematically.

But we're not completely out of the component shortage woods yet. And nor are we back to fully full price transparency and back to the normal model here yet. But we're definitely seeing a positive trajectory and supply is coming back online and the price pressure is easing as well.

So we're going to be continuing to be both hands on the steering wheel as we lead through this. But we're definitely heading in the right direction now.

John Fred Walsh *Crédit Suisse AG, Research Division - Director*

And then just a question around the sales productivity, so great color around enterprise. Good to hear your commentary there. Just curious, I think in the prepared remarks, you talked about measuring that productivity with percent of the Fortune 1,000 companies.

But are there any other metrics you can share or kind of maybe to use the sports analogy, what inning we're in here with the sales force productivity, those investments you made last year?

Raymond J. Pittman *Matterport, Inc. - Chairman & CEO*

Sure. I'm happy to start and JD, you can balance out my commentary as well. The first part of it is in the early stages of fleeting up and creating the sales capacity to achieve the growth numbers that we laid out in our plans last year and the beginning of this year going forward, you're going to see that curve be inverted, right? And that's by design. Productivity is going to go. In fact, it will decelerate. You'll see a negative trend for a while as the workforce has brought into the organization and then brought online and fledged up to becoming revenue and transaction producing workforce.

And it's not just the sales organization. It's really across many functions, product and engineering, marketing, customer operations and support because all of these components are contributing to the overall revenue plan, new products means new revenue opportunities and the like.

And the effectiveness of our new go-to-market plans, are critical to maximizing the growth of our sales pipeline, right? And so all of those efforts really transcended on the company and on the P&L at once, and again, by design, and so you're seeing that pressure in the

first 2 quarters of 2022 for sure.

But as you saw here, we're already seeing very positive outcomes as a result of the productivity, the traction that the organization is getting, the traction that the products are getting and taking hold specifically in the enterprise being much more enterprise ready, we're closing many more enterprise deals and expanding with those customers that we already have, right?

So that has allowed us to start to report these positive trends in productivity. And with our continued commitment to finding more operational efficiencies in the operation as we go to market, that's only going to continue with JD calling for \$20 million to \$25 million in annualized operating savings coming. That is a major contributor to productivity. JD, anything else add to that?

James Daniel Fay Matterport, Inc. - CFO

Yes, thanks. I think you covered a lot of it. I was just going to also add to it, John, that the operating efficiency that we're seeing in the bottom line, too. We obviously beat non-GAAP loss per share by \$0.01 on the entire range that we forecast.

So there's another proof point to your question about how we're sort of measuring and seeing the productivity improvements all across the organization now flowing through the results.

Operator

Our next question comes from Elizabeth Elliott from Morgan Stanley.

Elizabeth Mary Elliott Morgan Stanley, Research Division - VP of Equity Research

Great. So it sounds like SMB is continuing to drag on that expansion rate at 107%. So my question is around if you're seeing any improvement or deterioration to call out quarter-over-quarter in the SMB segment?

And how should we think about the ability for the growing enterprise expansions to offset? I'm just trying to figure out if we're at of bottom here and when we could start to see some improvement again in that expansion rate?

James Daniel Fay Matterport, Inc. - CFO

Yes. Well, net expansion rate, of course, was 107%, as we said earlier, and that is flat and consistent with last quarter. So there is the potential here for it to be a bottom. We obviously need to see a little bit more data to be sure about that.

But if I look at the internals, as you noted, the enterprise segment continues to be very strong. And all of the -- I think, comments today is expanding on that. And so I see that continuing in the second half as well.

With respect to the SMB group of customers, they were fairly steady across the entire quarter, during the second quarter, which was a bit different than the first quarter as we talked about back in May. And so there is -- that steadiness gives us a little bit of confidence that this, again, could be the sort of the trough of their activity, and they're finding their footing. But again, I think it might be a little too early to call that it's going to turn around immediately in the third quarter.

And then finally, in terms of expansion of the enterprise from here, I think as it continues to grow as a percent of our total revenue and as we continue to build out the enterprise customer base and offer more services that they're asking for, like some of the ones that we talked about today, yes, I think there is more room to grow that net dollar expansion rate in the enterprise.

And that will obviously help that group of customers, but then ultimately will pull up the entire or the consolidated number over time.

Raymond J. Pittman Matterport, Inc. - Chairman & CEO

Yes. And I would add to that, JD, that -- the energy, the investments -- and of course, the acquisition of VHT Studios and really doubling down on RREs because it's such a large untapped market opportunity remains so and it's going to be a big market for many years to come.

That also is an area that we're directing a lot of momentum and go-to-market activities to that is going to have a positive impact on SMB for sure, right? And these are all things that have been very much in the works and in the playbook for us this year. And they really start to kick into higher gear here in the second half of '22.

And we're going to see, I think, provided we're continuing to navigate as well as we are through the twist and turns of the macro environment, I think we're going to see a continued positive trend for both SMB and enterprise.

Elizabeth Mary Elliott Morgan Stanley, Research Division - VP of Equity Research

And then just as a quick follow-up. You mentioned some deal cycles taking longer. And I think that's something that we've heard across many companies reporting over the last couple of weeks.

And I just wanted to clarify, are you seeing similar trends in the conversion from free to paid, obviously, the value proposition is different in those 2 products. But curious if customers are taking longer to test drive those solutions and make paid commitments as well.

Raymond J. Pittman Matterport, Inc. - Chairman & CEO

Free to Paid has actually been holding very strong and continues to be our best on-ramp for SMB, mid-market and enterprise customers to get their first evaluation of the power of Matterport Digital twin in that sort of DIY kind of approach, which takes you from just a quick scan on the free tier to actually be going to full functioning Matterport digital twins and 5 of them in the starter plan, but tens of digital twins in the business and professional tiers.

And it's great to see the companies are still embracing the self-service mechanism with as much momentum and consistency that we've seen in quarters past. Especially with all of our increased focus on the enterprise, that has been just a critical piece of self-service energy to the business as well.

So I'm pleased to report that so far, it's been relatively unaffected by some of the type of trends that we're seeing out there in the enterprise and in the mid-market sales cycles.

Operator

And our next question comes from Yun Kim from Loop Capital Markets.

Yun Suk Kim Loop Capital Markets LLC, Research Division - MD

RJ, it's been almost a year since the launch of the Android capture app. Can you give us some update on the results so far, both quantitatively and obviously, more importantly, the qualitative results.

And then I think you just talked about it in your answer. But if you can just talk about whether -- how much the iPhone and Android users are becoming a key source of lead for your enterprise sales efforts?

And -- or are we still kind of early in terms of like using those smartphone users on potential customer acquisition?

Raymond J. Pittman Matterport, Inc. - Chairman & CEO

Sure. So firstly, Android is hugely, hugely important to the Matterport capture ecosystem. And the team has been working round the clock to continue to galvanize and harden and truly make it a commercial strength and frankly, even enterprise strength product offering for us because it's not just a new solution for creating a digital twin with the smartphone in your pocket, it's also the device that controls all of our other cameras and capture devices that we support and runs the software, if you will, that manages your digital twin for you.

So it's an integral part of our solution going forward. And it has been incredibly stable for a product that's about a year old, especially when we compare against the iOS app, which has been around as long as the company has been around over 10 years, right?

And so that is by comparison, a remarkable achievement that we have that level of stability and adoption continues to be very, very strong. Where we're seeing the adoption is really more in the mid-market and enterprise, where this seems to be a product of choice

that's in the workforce's pockets. And so it's a very easy and low cost of ownership pathway into Matterport.

The difference there is you won't see as many at least today, individual accounts tied to an Android device as you do see Android associated with mid-market and enterprise type accounts, right? And that's fine. That is absolutely part of the objective. And we're very pleased with those results.

Where we are seeing traction at the premium tier on its way into a free-to-pay conversion is with the higher-end devices. Typically, the newest phones the most powerful phones in the Google and Samsung lineup. And we've yet to see full distribution into more and more of the lower-cost phones.

But we think that there is still a real opportunity for us to grow in that segment as well, especially in Europe and Asia, where we're in, I would say, certainly still the very early days of smartphone capture in those markets.

Yun Suk Kim Loop Capital Markets LLC, Research Division - MD

And JD, so obviously, enterprise business is picking up. But it looks like there's some dynamics going on there in terms of the deal structures and whatnot. So if you can just give us quickly what is your -- what is the typical contract length that you see in these deals?

And then also you mentioned on some of these deals, you -- there is an initial ramp period. Can you just describe to us how long that ramp typically is? And is there any services component associated with any of these enterprise deals?

James Daniel Fay Matterport, Inc. - CFO

Sure. Yes. Thanks for the question. So yes, what we're seeing evolve, I think, to our ultimate benefit is the enterprise contracts, a lot of them are moving from 1-year deals to multiyear deals.

And multi, of course, can be 2, it can be 3, and often. But we've even seen deals as long as 5 years come in through the opportunity set. So that's what we're seeing in terms of deal length in the enterprise customer set. In terms of the ramp period, a lot of these customers are accessing our capture services offering.

And you can see that in the results of the growth in the services line in revenue. So that means that we're undertaking with the customer to a facility to capture their spaces. And so there's typically a schedule that we work on with the customer. And we do many of them, many spaces at once or over time in different cities often around the world. And so that process of capturing their spaces can take anywhere from 3 months to 12 months.

It just really depends on the program that the 2 parties come together and outline and the speed with which the customer wants to deploy. But that's the typical range of the ramp time. And then finally, is there a services component and yes, because a lot of them are using that capture services offering that we have. So yes, I think that covers your various questions Yun.

Yun Suk Kim Loop Capital Markets LLC, Research Division - MD

So on that, the captured services ramp, there should be a subscription revenue that's just follow or should the subscription contract should ramp at the same time with the captured services are ramping?

Raymond J. Pittman Matterport, Inc. - Chairman & CEO

Yes, it's a good point. Yes, it ramps up slightly differently. Services -- captured services ramps a little faster because that's the first act. And then the subscription revenue ramps after that. And they're not always -- I mean, they're not on the same slope. But in terms of the sequencing, it's services first and then SaaS second.

Operator

And ladies and gentlemen, with that, we'll end today's question-and-answer session as well as today's conference call. We thank you for attending today's presentation. You may now disconnect your lines.

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